

Message Text

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ACTION EB-04

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FM USMISSION OECD PARIS

TO SECSTATE WASH DC IMMEDIATE 5894

AMEMBASSY OTTAWA IMMEDIATE

C O N F I D E N T I A L OECD PARIS 06361

LIMDIS

GREENBACK

OTTAWA FOR COOPER; WASHINGTON FOR LEDDY

E.O. 11652: GDS

TAGS: EFIN, OECD

SUBJECT: SUPPORT FUND TEXT

1. MAJOR SUBSTANTIVE PROVISION STILL UNSOLVED IS THE
DENOMINATION OF THE ALLOCATION OF CALLS AGAINST QUOTA.
THERE FOLLOWS LATEST SECRETARIAT DRAFT: BEGIN TEXT
REVISED TEXT OF SECTION 3 OF ARTICLE XII

SECTION 3. SDR VALUE OF DRAWINGS ON THE QUOTA

FOR THE PURPOSE OF CALCULATING THE AMOUNT, IN SDR,
DRAWN ON A MEMBER'S QUOTA:

(A) THE AMOUNTS REFERRED TO IN SECTIONS 1 AND 2 OF
THIS ARTICLE WHICH RELATE TO DIRECT FINANCING OR AN
INDIVIDUAL UNDERTAKING SHALL BE CONVERTED INTO SDR AT
THE SDR VALUE OF THE CURRENCY CONCERNED AT THE DATE
ON WHICH THE RELATED FINANCING WAS INITIALLY PROVIDED.

(B) THE SDR VALUE OF THE AMOUNT DRAWN ON A
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MEMBER'S QUOTA SHALL BE ADJUSTED TO TAKE ACCOUNT OF

CHANGES IN THE SDR VALUE OF THE CURRENCY OR CURRENCIES
CONCERNED IN THE CASE OF THE AMOUNTS REFERRED TO IN
SECTIONS 1 AND 2 OF THIS ARTICLE WHICH RELATE TO
A COLLECTIVE UNDERTAKING. END TEXT

2. IMPORTANT ASPECT OF DRAFT IS THAT IT ALLOWS FOR
CONTINUING REVALUATION OF MEMBERS' OBLIGATIONS UNDER
COLLECTIVE UNDERTAKINGS. CONSEQUENTLY, REVALUATION
OF CURRENCY BORROWED WOULD RESULT IN REVALUATION OF
MEMBERS' OBLIGATIONS UNDER COLLECTIVE UNDERTAKINGS.
THIS PROVISION PROBABLY NEEDED BECAUSE MARKET GETS ONLY
A SLICE OF QUOTAS. HOWEVER, THIS RATIONALE SEEMS
EQUALLY APPLICABLE TO INDIVIDUAL UNDERTAKINGS.

3. OTHER MAJOR VALUATION ISSUE INVOLVES SO-CALLED
LITTLER RULE. EFFECT OF THIS RULE IS THAT FOR
INDIVIDUAL COMMITMENTS THE MEMBER PROVIDING THE
FINANCING TAKES THE EXCHANGE RISK ON DEFAULT. QUESTION
IS RAISED WHETHER THIS IS IN THE INTEREST OF U.S. AS
A MAJOR PROVIDER OF RESOURCES UNDER THE AGREEMENT
WHICH WOULD TAKE THE MAJOR PART OF THE RISK ON DEFAULT.
TEXT OF LITTLER RULE NOT TRANSMITTED SINCE THIS
PROVISION CONTAINED IN DOCUMENTATION ALREADY AVAILABLE
IN WASHINGTON.

4. SUBSTANTIAL PROGRESS MADE IN LEGAL WORKING GROUP.
IN PARTICULAR, SECRETARIAT PROVIDED SATISFACTORY
NEW REDRAFT OF COUNCIL DECISION. CONSEQUENTLY,
BRACKETS WERE REMOVED AROUND USE OF THE ACRONYM OECD
IN THE NAME OF FUND. MAJOR DISCUSSION OF SDR
DENOMINATION ISSUE CAN BE EXPECTED. HOWEVER, OTHER
ISSUES STILL OUTSTANDING CAN PROBABLY BE EASILY HANDLED.
JAPANESE HAVE ACCEPTED NET PRINCIPLE, BUT CONTINUE TO
RAISE TROUBLESOME ISSUES ON WHICH THEIR POINTS HAVE
BEEN PREVIOUSLY REJECTED.
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